

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Negaunee Housing Commission	County Marquette
Audit Date 12/31/05	Opinion Date 2/20/06	Date Accountant Report Submitted to State: 2/23/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

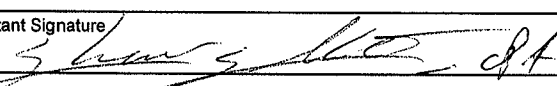
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828		City Iron Mountain	State MI
		ZIP 49801	
Accountant Signature 			Date 2/23/06

NEGAUNEE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2005

NEGAUNEE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:

L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:

Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Negaunee Housing Commission
Negaunee, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Negaunee Housing Commission, component unit of the City of Negaunee, Michigan, as of and for the year ended December 31, 2005 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Negaunee Housing Commission as of December 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2006 on our consideration of the Negaunee Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Negaunee Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

February 20, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Negaunee Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$1,855,672 at December 31, 2005 compared to \$1,903,097 at December 31, 2004.
- The Commission's operating revenues totaled \$386,738 for December 31, 2005 and \$396,736 for December 31, 2004, while operating expenses totaled \$447,960 for December 31, 2005 and \$448,669 for December 31, 2004.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities"? The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2005 decreased \$(47,425) from December 31, 2004.

Table 1

NET ASSETS

	December 31,	
	2005	2004
Assets		
Current assets	\$ 576,078	\$ 503,409
Capital assets (net)	<u>1,342,587</u>	<u>1,458,763</u>
Total assets	<u>1,918,665</u>	<u>1,962,172</u>
Liabilities		
Current liabilities	52,391	49,369
Noncurrent liabilities	<u>10,602</u>	<u>9,706</u>
Total liabilities	<u>62,993</u>	<u>59,075</u>
Net Assets		
Invested in capital assets, net of related debt	1,342,587	1,458,763
Unrestricted	<u>513,085</u>	<u>444,334</u>
Net Assets	<u>\$1,855,672</u>	<u>\$1,903,097</u>

Net assets of the Commission stood at \$1,855,672 at December 31, 2005 compared to \$1,903,097 at December 31, 2004. Unrestricted net business assets were \$513,085 compared to \$444,334 at December 31, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

Table 2**CHANGE IN NET ASSETS**

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for services	\$ 247,603	\$ 236,344
Program grants and subsidies	134,374	156,015
General revenues:		
Other revenues	4,761	4,377
Unrestricted investment earnings	<u>13,797</u>	<u>7,050</u>
Total revenues	400,535	403,786
Program Expenses:		
Operating expenses	<u>(447,960)</u>	<u>(448,669)</u>
Change in net assets	(47,425)	(44,883)
Net assets - beginning of period	<u>1,903,097</u>	<u>1,947,980</u>
Net assets - end of period	<u>\$ 1,855,672</u>	<u>\$ 1,903,097</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$400,535 compared to \$403,786 during December 31, 2004. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had \$3,746,901 invested in a variety of capital assets including land, equipment and buildings at December 31, 2005 compared to \$3,684,536 at December 31, 2004.

Table 3

CAPITAL ASSETS Business - Type Activity

	December 31,	
	2005	2004
Land and improvements	\$ 226,414	\$ 204,214
Building and improvements	3,343,642	3,305,960
Equipment	<u>176,845</u>	<u>174,362</u>
Total	3,746,901	3,684,536
Less accumulated depreciation	<u>(2,404,314)</u>	<u>(2,225,773)</u>
NET CAPITAL ASSETS	<u>\$1,342,587</u>	<u>\$1,458,763</u>

The Commission invested \$62,365 in capital assets during the year ended December 31, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2005/2006 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Marcia Waters, at 98 Croix Street, Negaunee, Michigan 49866, or call 906-475-9107.

NEGAUNEE HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2005

CURRENT ASSETS:	
Cash and equivalents	\$ 380,829
Accounts receivable, net	10,818
Investments	160,454
Inventory	13,963
Prepaid expenses	<u>10,014</u>
TOTAL CURRENT ASSETS	<u>576,078</u>
NONCURRENT ASSETS:	
Capital assets	3,746,901
Less accumulated depreciation	<u>(2,404,314)</u>
NET CAPITAL ASSETS	<u>1,342,587</u>
TOTAL ASSETS	<u>\$ 1,918,665</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 380
Accrued liabilities	<u>52,011</u>
TOTAL CURRENT LIABILITIES	52,391
NONCURRENT LIABILITIES	<u>10,602</u>
TOTAL LIABILITIES	<u>62,993</u>
NET ASSETS:	
Investment in capital assets, net of related debt	1,342,587
Unrestricted net assets	<u>513,085</u>
NET ASSETS	<u>\$ 1,855,672</u>

The accompanying notes to financial statements are an integral part of this statement.





**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

NEGAUNEE HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 447,960	\$ 247,603	\$ 134,374	\$ -
				\$ (65,983)
General revenues:				
Unrestricted investment earnings				13,797
Other				4,761
Total general revenues				18,558
Change in net assets				(47,425)
NET ASSETS, beginning of year				1,903,097
NET ASSETS, end of year				\$ 1,855,672

The accompanying notes to the financial statements are an integral part of this statement.

NEGAUNEE HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended December 31, 2005

OPERATING REVENUES:

Tenant revenue	\$ 247,603
Program grants-subsidies	134,374
Other income	<u>4,761</u>

TOTAL OPERATING REVENUES	<u>386,738</u>
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OPERATING EXPENSES:

Administration	80,944
Utilities	64,548
Maintenance	92,876
General	31,051
Depreciation	<u>178,541</u>

TOTAL OPERATING EXPENSES	<u>447,960</u>
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OPERATING (LOSS)	(61,222)
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OTHER INCOME (EXPENSES):

Interest income	<u>13,797</u>
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CHANGE IN NET ASSETS	(47,425)
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NET ASSETS, BEGINNING OF YEAR	<u>1,903,097</u>
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NET ASSETS, END OF YEAR	<u>\$ 1,855,672</u>
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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

NEGAUNEE HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended December 31, 2005

OPERATING ACTIVITIES:

Cash received from customers	\$ 240,230
Cash received from grants and subsidies	134,317
Cash payments to suppliers for goods and services	(109,424)
Cash payments for wages and related benefits	(141,114)
Cash payments for payment in lieu of taxes	(16,922)
Other receipts	<u>4,761</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>111,848</u>
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CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	<u>(62,365)</u>
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NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(62,365)</u>
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INVESTING ACTIVITIES:

Purchase of investments	(4,063)
Investment income	<u>13,880</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>9,817</u>
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NET INCREASE IN CASH AND EQUIVALENTS	59,300
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>321,529</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 380,829</u>
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RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (61,222)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	178,541
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(7,430)
Decrease (Increase) in inventories	(1,959)
Increase (Decrease) in accounts payable	5
Increase (Decrease) in accrued liabilities	<u>3,913</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 111,848</u>
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The accompanying notes to financial statements are an integral part of this statement.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Negaunee Housing Commission (Commission) was formed by the Negaunee City Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City of Negaunee.

The Commission manages 80 units of low rent public housing units of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Negaunee Housing Commission, but the Commission is a component unit of the City of Negaunee, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.
- d. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- f. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- g. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Checking accounts	\$ 380,824
Savings account	<u>5</u>
TOTAL	<u>\$ 380,829</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require, and the Commission does not have a policy for, deposit custodial credit risk. As of June 30, 2005, the Commission's cash and equivalents were not exposed to credit risk, due to them being fully insured.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>5-10 Years</u>
Certificates of Deposit	<u>\$160,454</u>	<u>\$64,024</u>	<u>\$96,430</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments are with the following three financial institutions:

Range Bank	\$ 56,974
Superior Iron Range Credit Union	\$ 60,806
Peninsula Bank	\$ 42,674

NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2005 is as follows:

	Balance 1-1-05	Additions	Deletions	Balance 12-31-05
Land and improvements	\$ 204,214	\$ 22,200	\$ -	\$ 226,414
Building and improvements	3,305,960	37,681	-	3,343,641
Equipment	174,362	2,484	-	176,846
	3,684,536	\$ 62,365	\$ -	3,746,901
Accumulated depreciation	(2,225,773)	<u>\$(178,541)</u>	<u>\$ -</u>	<u>(2,404,314)</u>
Net capital assets	<u>\$1,458,763</u>			<u>\$1,342,587</u>

Depreciation expense for the year was \$178,541.

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended December 31, 2005 totaled \$386,738 of which \$134,374 or 34.8% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - DEFINED BENEFIT PENSION PLAN

The following information is based upon the latest available actuarial valuation (as of December 31, 2003).

Plan Description

The Commission is part of the City of Negaunee's plan. The City contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.



NEGAUNEE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE G – DEFINED BENEFIT PENSION PLAN (Continued)

The qualified employees of the Police Department of the City are included in a separate self-administered plan. All other full-time employees of the City are eligible to participate in the System. Benefits vest after ten years of service. City employees who retire at or after age 55 with twenty-five years of credited service are entitled to an annual retirement benefit, payable monthly for life. Qualified employees receive a monthly payment equal to 2.25 percent of final average compensation, with a maximum benefit of 80% of final average compensation.

The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Funding Policy

The City is required to contribute the amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

For the year ended December 31, 2004, the City's annual pension cost of \$220,848 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include an 8.0% investment rate of return and projected salary increases of 4.5% per year. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions over a period ranging from 30 to 39 years.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year</u> <u>Ending December 31</u>	<u>Valuation Date</u> <u>December 31</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage-APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2001	2000	187,345	100	-
2002	2001	188,064	100	-
2003	2002	220,848	100	-



**SUPPLEMENTAL
INFORMATION**

NEGAUNEE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE Proprietary Fund

December 31, 2005

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 380,829	\$ -	\$ 380,829
100	Total cash	380,829	-	380,829
122	Accounts Receivable - HUD	4,297	5,057	9,354
126	Accounts Receivable - dwelling rents	1,197	-	1,197
126.1	Allowance for doubtful accounts - dwelling rents	(492)	-	(492)
129	Accrued interest	759	-	759
120	Total receivables, net of allowances for doubtful accounts	5,761	5,057	10,818
Other current assets:				
131	Investments - Unrestricted	160,454	-	160,454
142	Prepaid expenses and Other Assets	10,014	-	10,014
143	Inventories	13,243	720	13,963
144	Interprogram due from	5,057	-	5,057
150	TOTAL CURRENT ASSETS	575,358	5,777	581,135
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	18,720	-	18,720
162	Buildings	3,252,609	91,033	3,343,642
163	Furniture, equipment & machinery - dwellings	71,146	-	71,146
164	Furniture, equipment & machinery - administration	100,960	4,739	105,699
165	Leasehold improvements	180,244	27,450	207,694
166	Accumulated depreciation	(2,395,097)	(9,217)	(2,404,314)
160	Total fixed assets, net of accumulated depreciation	1,228,582	114,005	1,342,587
180	TOTAL NONCURRENT ASSETS	1,228,582	114,005	1,342,587
190	TOTAL ASSETS	<u>\$ 1,803,940</u>	<u>\$ 119,782</u>	<u>\$ 1,923,722</u>

See accompanying notes to financial statements



NEGAUNEE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 380	\$ -	\$ 380
322	Accrued compensated absences - current portion	12,507	-	12,507
333	Accounts payable - other government	17,652	-	17,652
341	Tenant security deposits	21,420	-	21,420
342	Deferred revenues	432	-	432
347	Interprogram due to	-	5,057	5,057
310	TOTAL CURRENT LIABILITIES	52,391	5,057	57,448
354	Accrued compensated absences - non current	10,602	-	10,602
350	TOTAL NONCURRENT LIABILITIES	10,602	-	10,602
300	TOTAL LIABILITIES	62,993	5,057	68,050
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	1,228,582	114,005	1,342,587
512.1	Unrestricted net assets	512,365	720	513,085
513	TOTAL NET ASSETS	1,740,947	114,725	1,855,672
600	TOTAL LIABILITIES AND NET ASSETS	\$ 1,803,940	\$ 119,782	\$ 1,923,722

See accompanying notes to financial statements



NEGAUNEE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 246,102	\$ -	\$ 246,102
704	Tenant revenue - other	1,501	-	1,501
705	Total tenant revenue	247,603	-	247,603
706	HUD PHA grants	51,908	19,573	71,481
706.1	Capital grants	-	62,893	62,893
711	Investment income - unrestricted	13,797	-	13,797
715	Other revenue	4,761	-	4,761
700	TOTAL REVENUE	318,069	82,466	400,535
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	41,729	9,898	51,627
912	Auditing fees	2,557	-	2,557
914	Compensated absences	1,009	-	1,009
915	Employee benefit contributions- administrative	9,525	757	10,282
916	Other operating- administrative	13,280	2,189	15,469
	Total Administrative	68,100	12,844	80,944
Utilities:				
931	Water	18,574	-	18,574
932	Electricity	20,292	-	20,292
933	Gas	25,682	-	25,682
	Total Utilities	64,548	-	64,548
Maintenance:				
941	Ordinary maintenance and operations - labor	50,757	-	50,757
942	Ordinary maintenance and operations - materials & other	6,279	213	6,492
943	Ordinary maintenance and operations - contract costs	9,197	-	9,197
945	Employee benefit contributions- ordinary maintenance	26,430	-	26,430
	Total Maintenance	92,663	213	92,876

See accompanying notes to financial statements



NEGAUNEE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE Proprietary Fund

For the Year Ended December 31, 2005

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	General expenses:			
961	Insurance premiums	13,160	239	13,399
963	Payments in lieu of taxes	17,652	-	17,652
	Total General Expenses	<u>30,812</u>	<u>239</u>	<u>31,051</u>
969	TOTAL OPERATING EXPENSES	<u>256,123</u>	<u>13,296</u>	<u>269,419</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>(44,459)</u>	<u>20,100</u>	<u>(24,359)</u>
974	Depreciation expense	<u>170,669</u>	<u>7,872</u>	<u>178,541</u>
900	TOTAL EXPENSES	<u>426,792</u>	<u>21,168</u>	<u>447,960</u>
	Other financing sources (uses)			
1001	Operating Transfers In	6,277	-	6,277
1002	Operating Transfers Out	-	(6,277)	(6,277)
1010	Total other financing sources (uses)	<u>6,277</u>	<u>(6,277)</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (102,446)</u>	<u>\$ 55,021</u>	<u>\$ (47,425)</u>
	MEMO account information			
1103	Beginning equity	\$ 1,772,072	\$ 131,025	\$ 1,903,097
1104	Prior Period Adjustments, Equity Transfers	\$ 71,321	\$ (71,321)	\$ -
1120	Unit months available	960	-	960
1121	Number of unit months leased	959	-	959

See accompanying notes to financial statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Negaunee Housing Commission
Negaunee, Michigan

We have audited the financial statements of the business-type activities of the Negaunee Housing Commission as of and for the year ended December 31, 2005, which collectively comprise the Negaunee Housing Commission's basic financial statements, and have issued our report thereon dated February 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Negaunee Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Negaunee Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman & Co. PLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

February 20, 2006

